

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

# SBA's State Trade Expansion Program



**Verification Inspection**

**Report 24-19**

**June 11, 2024**



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### **NOTICE:**

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations, and business entities identified in this report can submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to [AIGA@sba.gov](mailto:AIGA@sba.gov) within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments will be appended to this report and posted on our public website.



**OFFICE OF INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**MEMORANDUM**

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**Date:** June 11, 2024

**To:** Isabella Casillas Guzman  
Administrator

**From:** Hannibal "Mike" Ware  
Inspector General

A handwritten signature in black ink, appearing to read "Mike Ware".

**Subject:** Verification Inspection of SBA's State Trade Expansion Program (Report 24-19)

This report presents the results of our verification inspection of the U.S. Small Business Administration's (SBA) corrective actions for the six recommendations from the Office of Inspector General (OIG) audit report *SBA's State Trade Expansion Program* (Report 18-11). A verification inspection is a review that focuses on the implementation of closed recommendations from prior OIG reports.

We determined that OIG Report 18-11 recommendations 1, 2 and 3 are fully implemented; however, SBA management has not fully implemented recommendations 4, 5 and 6. We will track management's execution by reopening the recommendations and will work with SBA to establish target dates for enacting corrective actions through the audit follow-up process.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Thomas Rosado, Acting Director of Audit Operations Group at (202) 205-7383, or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Daniel Krupnick, Associate Administrator, Office of International Trade  
Therese Meers, General Counsel, Office of General Counsel  
Claire Ehmann, Deputy Associate Administrator, Office of International Trade  
Tonia Butler, Director, Office of Internal Controls  
Anna Maria Calcagno, Director, Office of Program Performance, Analysis, and Evaluation  
Michael A. Simmons, Attorney Advisor, Office of General Counsel

## Background

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The Trade Facilitation and Trade Enforcement Act of 2015 (the Act) directed the U.S. Small Business Administration (SBA) to establish the State Trade Expansion Program (STEP). The STEP program objective is to make grants to states to increase the number of Eligible Small Business Concerns in the state exploring significant new trade opportunities.<sup>1</sup> In FY 2023, STEP grant awards totaled \$19.92 million. The Act allows the Associate Administrator of the Office of International Trade (OIT) to award grants to states, so they can implement programs that assist small businesses in the following export promotion activities:

- Participation in foreign trade missions;
- Subscriptions to services provided by the U.S. Department of Commerce;
- Payment of website fees;
- Design of marketing media;
- Trade show exhibitions;
- Participation in training workshops;
- Reverse trade missions;
- Procurement of consultancy services (after consultation with the Department of Commerce to avoid duplication); or
- Other initiatives determined appropriate by the Associate Administrator for OIT.<sup>2</sup>

The Act requires the Associate Administrator for OIT to publish an annual report on the agency's website that includes the effect of each grant on businesses in the state receiving the agreement; the total return on investment for each state; and a description of best practices by state that show high return on investment and significant progress in helping more small businesses.<sup>3</sup>

The Act also required the Office of Inspector General (OIG) to conduct a review and submit a report to Congress no later than 18 months after the date on which the first cooperative agreement was awarded under STEP. Pursuant to this requirement, OIG issued Report 18-11, *Audit of SBA's State Trade Expansion Program*, on January 29, 2018. The audit's objectives were (1) to determine the extent to which STEP grant recipients measured program activity

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<sup>1</sup> According to the Act, an eligible small business concern is organized or incorporated and operating in the United States; meets size standards in the Small Business Act Section 3(a) or alternative size standards, has been in business for no less than 1 year; and has access to sufficient resources to bear the costs associated with trade.

<sup>2</sup> Public L. No. 114-125, Trade Facilitation and Trade Enforcement Act of 2015, Section 503 (February 2016).

<sup>3</sup> This report uses "grant" and "cooperative agreement" interchangeably.

performance and the results of those measurements and (2) to review the overall management and effectiveness of STEP. The OIG found:

- SBA relied on unverified return on investment measurements as the sole measurement for program success when other performance measures might have provided more comprehensive program results.
- SBA did not establish clear definitions for key performance measures, which resulted in recipients reporting inconsistent performance results.
- SBA did not establish participation thresholds to prevent grant recipients from relying on federal assistance.
- SBA did not provide sufficient guidance and monitoring of STEP grant recipients' activities.

We initiated this verification inspection to follow up on all six recommendations from Report 18-11 and determine whether SBA's corrective actions are still in place and effective.

## Summary of Results

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Program officials are effectively implementing corrective actions for three of the six recommendations made by OIG. Specifically:

- Recommendation 1: SBA established new verifiable performance measurements and included them in the most recent STEP Annual Report to Congress.
- Recommendation 2: SBA developed and demonstrated a process to ensure recipients report accurate and complete information for participating Eligible Small Business Concerns (ESBC) that reconciled to the quarterly performance reports.
- Recommendation 3: SBA defined essential performance measurement criteria and included them in the funding opportunity announcements associated with the most recent STEP Annual Report to Congress.

However, SBA's corrective actions only partially addressed recommendations 4, 5, and 6. Specifically:

- Recommendation 4: SBA updated the funding opportunity announcements to require applicants to include reimbursement and activity thresholds in their proposals. However, SBA did not provide sufficient documentation demonstrating that it reviewed the two thresholds for reasonableness.
- Recommendation 5: SBA included a question on their quarterly review checklist asking program managers to answer whether recipients' reported expenditures agreed with the approved SF 424A Section D (Forecasted Cash Needs). SBA also included a second question on the quarterly review checklist, designed to identify recipients at risk of not meeting performance milestones; however, program managers did not always answer it.
- Recommendation 6: SBA implemented a site visit program and partially modified the checklists used by staff during their quarterly reviews of recipients. But, as noted for Recommendation 5, SBA personnel did not always answer the checklist question designed to identify recipients at risk of not meeting performance milestones. Further, the checklists lacked the required risk-based factors needed for staff to assess the risk of recipients not meeting their performance milestones.

# Report 18-11: SBA's State Trade Expansion Program

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The following information details the original findings, recommendations, and SBA's corrective actions for recommendations 1–6.

## Recommendation 1

OIG Finding	OIG Recommendation	SBA Corrective Actions
Recipients' performance measurements needed improvement.	Establish performance measurements using the recipients' reported data, such as Eligible Small Business Concerns new to the State Trade Expansion Program and include them in the annual report as a verifiable measure of program success.	OIG closed this recommendation September 21, 2018, because SBA had established new verifiable performance measurements using the recipients' reported data and included them in the published STEP annual report.

## Inspection Result

We reviewed SBA's most current STEP Annual Report to Congress to verify it included two performance measurements that SBA agreed to add to the report when the recommendation was closed. Although in our review of the annual report, we did not locate one of the two agreed upon performance measurements, SBA officials responded that the report included the following five alternative performance measurements of program success: number and type of activities performed by Eligible Small Business Concerns, STEP utilization rates, effects on ESBCs, return on investment by state, and export sales by STEP activity. We confirmed that all five performance measurements were included in SBA's most recent STEP Annual Report to Congress and are verifiable measures of program success.

We consider this corrective action fully implemented and effective.

## Observation

While verifying the performance measurements of program success in the STEP Annual Report to Congress, we noted errors in one performance measurement table. Specifically, we found

duplicate entries for three states listed in the table and numeric totals that did not sum correctly. Even after accounting for the duplicated entries, our recalculated totals of data presented in the table did not sum correctly.

The STEP Annual Report to Congress helps legislators direct agency attention to matters of importance to Congress, ensure compliance with legislative intent, originate, or inform legislative proposals on emerging issues, and assess the effectiveness of existing programs and policies. It is important that performance measurements in the STEP Annual Report to Congress accurately reflect performance data and success measures.

## Recommendation 2

OIG Finding	OIG Recommendation	SBA Corrective Actions
Recipients' performance measurements needed improvement.	Develop policies and implement a process to ensure recipients report accurate and complete information for participating Eligible Small Business Concerns that reconciles to the quarterly performance reports.	OIG closed this recommendation September 21, 2018, after SBA developed a policy and updated a template to ensure recipients report accurate and complete information for participating Eligible Small Business Concerns that reconciles to the quarterly performance reports.

## Inspection Result

We verified that SBA developed a policy and implemented a process to ensure grant recipients report accurate and complete information for participating small businesses that reconciles to the quarterly performance reports. First, we determined that SBA modified its Quarterly In-Depth Review Checklist to ask whether the number of small businesses on the Program Progress Report reconciled to the number of small businesses on the Quarterly Client Report. Second, we reviewed SBA's process for reconciling the number of small businesses on the Program Progress Report to the Quarterly Client Report. Third, we verified whether the number of small businesses per grant recipient reconciled to the corresponding Quarterly Client Report in the most current STEP Annual Report to Congress. We consider this corrective action fully implemented and effective.



### Recommendation 3

OIG Finding	OIG Recommendation	SBA Corrective Actions
Recipients' performance measurements needed improvement.	Clearly define essential measurement criteria, specifically sales, new-to-export, and market expansion, to ensure reporting consistency among the State Trade Expansion Program recipients and include these definitions in the program announcement.	OIG closed this recommendation September 21, 2018, after SBA defined essential measurement criteria, specifically sales, new-to-export, and market expansion, and included them in the funding opportunity announcement.

### Inspection Result

We verified SBA clearly defined essential measurement criteria, specifically sales, new-to-export, and market expansion, to ensure reporting consistency among the grant recipients and included these definitions in the program announcements associated with the most recent *STEP Annual Report to Congress 2021*.

We examined the program announcements corresponding to the most current STEP annual report and verified that export sales, new-to-export, and market expansion terms were included and clearly defined. We identified all three measurement criteria and definitions in each program announcement.

We consider this corrective action fully implemented and effective.

## Recommendation 4

OIG Finding	OIG Recommendation	SBA Corrective Actions
Recipients' performance measurements needed improvement.	Require State Trade Expansion Program applicants to include reimbursement and activity thresholds for participating Eligible Small Business Concerns in their proposals and review for reasonableness to ensure the program meets the objective of the Trade Facilitation and Trade Enforcement Act of 2015.	OIG closed this recommendation September 21, 2018. SBA updated the funding opportunity announcement to require applicants to include reimbursement and activity thresholds in their proposals and indicated it would review the thresholds for reasonableness.

## Inspection Result

We verified that SBA required STEP grant applicants' proposals to include grant recipient reimbursement thresholds (the amount of assistance a grant recipient can receive) and activity thresholds (the number of activities a grant recipient can participate in). We also requested SBA records documenting their review of reasonableness for grant recipients' program thresholds.

We judgmentally selected three grant recipients' proposals to determine whether they included reimbursement and activity thresholds. We determined that all three proposals included reimbursement and activity thresholds. However, SBA did not provide documentation of the process used or the results of their reviews of reasonableness for grant recipients' program thresholds. Program officials stated that they conduct reviews of grant applicants' proposals for reasonability during the Tier II process by the STEP team. They further stated that STEP program managers evaluate the grant recipient's prior year's performance when reviewing the current year's application. When that review is complete, the determination of the thresholds' reasonableness will depend on the grant applicant's explanation of how prior year's funds were used in their Technical Proposal and Budget Narrative. Program officials stated that the review of past performance years helped confirm whether the applicant could ensure proper and reasonable use of STEP funds, however, they were unable to provide written documentation to support these verbal assurances.

We are reopening Recommendation 4 because without documentation confirming program officials reviewed the thresholds for reasonableness, there's no assurance the program meets the objective of the Trade Facilitation and Trade Enforcement Act of 2015.

## Recommendation 5

OIG Finding	OIG Recommendation	SBA Corrective Actions
Recipients were behind in activity spending.	Enhance the quarterly review process to include strategic planning to emphasize recipients meeting performance goals.	OIG closed this recommendation January 19, 2018, after SBA updated its quarterly in-depth review checklist to emphasize monitoring recipients' quarterly performance goals.

## Inspection Result

We found that although SBA designed a quarterly review process that includes strategic planning, the forms and checklists designed to monitor performance results were not always complete.

We judgmentally selected three grant recipients with the largest number of Eligible Small Business Concerns in the most recent annual report to Congress and reviewed their checklists to verify that program managers answered whether grant recipients were on target to meet their grant milestones. We found that while this question, intended to identify at-risk grant recipients requiring additional monitoring and oversight, was included in the selected checklists, the program managers for many quarters answered this question "N/A." The program managers explained that the milestones would be assessed closer to the end of the grant performance period, which does not allow for early problem identification so that strategic plans can be adjusted to meet grant milestones by the grant's end.

The question's purpose is to identify grant recipients at-risk of not meeting their grant milestones. A "No" answer identifies the grant recipient as at-risk which requires intervention from program managers to take measures to ensure grant recipients meet their target milestones. Delaying identification of poor performing grant recipients until late in the performance cycle limits the STEP program's ability to anticipate, prevent or mitigate performance issues and may increase program risk.

The checklist for one recipient responded “Yes” to this question for 4 consecutive quarters, but the target performance milestones were clearly inaccurate. For example, they listed a target milestone for total firms participating erroneously as 1 rather than the correct target of 426. In another instance, the entire checklist was left blank. These issues should have been identified with sufficient and effective oversight and monitoring.

We are reopening Recommendation 5 because we found that SBA’s quarterly review process was not sufficient to enhance strategic planning, and it did not emphasize recipients meeting performance goals.

## Recommendation 6

OIG Finding	OIG Recommendation	SBA Corrective Actions
Recipients were behind in activity spending.	Increase oversight of cooperative agreement recipients and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.	OIG closed this recommendation September 21, 2018. SBA conducts recipient site visits; modified recipient reporting requirements to identify recipients at-risk for not meeting goals; and requires program managers to perform additional oversight and analyses of at-risk recipients.

## Inspection Result

We reviewed the checklists to determine whether they included risk-based factors to analyze and assess the risk of grant recipients not meeting their target milestone goals. None of the checklists reviewed included the required risk-based factors or contained evidence program managers considered them during their quarterly oversight and monitoring reviews. We concluded that SBA did not implement a risk-based approach to monitor recipients.

As with Recommendation 5, SBA’s corrective actions for Recommendation 6 included program managers answering a question in the quarterly review checklist about whether grant recipients were on target to meet their grant milestones. For nearly half of the quarters, the program managers answered this question “N/A”. Additionally, for 4 consecutive quarters, they did not notice significant errors in the grantee’s reported data. SBA’s approach to monitoring recipients

does not allow for early problem identification so timely corrective measures can be implemented to ensure grant milestones can be met by the end of the grant period.

Finally, we concluded that SBA implemented a site visit program; however, because management did not implement a risk-based approach to monitoring grant recipients, and the process didn't allow for early identification of at-risk recipients, we are reopening Recommendation 6.

## Evaluation of Agency Response

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While formal comments are not required for verification inspections, the agency elected to provide formal comments that are included in their entirety in this report. SBA established final action target dates and we will work with SBA to close the recommendations during the audit follow-up process. SBA's comments are responsive to our recommendations and the agency agreed or partially agreed with reopening the following recommendations:

### **Recommendation 4**

Require State Trade Expansion Program applicants to include reimbursement and activity thresholds for participating eligible small business concerns in their proposals and review for reasonableness to ensure the program meets the objective of the Trade Facilitation and Trade Enforcement Act of 2015.

**Status:** Resolved

Management agreed with this recommendation stating that they will modify the grant review instructions and clearly instruct the Technical Evaluation Panels to review both the reimbursement and activity thresholds for reasonableness. SBA provided a target completion date of June 14, 2024. The recommendation can be closed when SBA provides the grant review instructions and sufficient documentation confirming program officials are reviewing the thresholds for reasonableness.

### **Recommendation 5**

Enhance the quarterly review process to include strategic planning to emphasize recipients meeting performance goals.

**Status:** Resolved

Management agreed with this recommendation, stating they will ensure current procedures are properly followed and full responses are provided to all checklist questions. Management further stated the STEP director will implement spot reviews to ensure that program managers are complying with these procedures and will provide additional training to the program managers if necessary. SBA provided a target completion date of June 30, 2024. The recommendation can be closed when management provides evidence that the quarterly review process enhances strategic planning and emphasizes recipients meeting performance goals.

## **Recommendation 6**

Increase oversight of cooperative agreement recipients and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.

**Status:** Resolved

Management partially agreed with this recommendation, stating that SBA does implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.

Management further stated that two questions on the quarterly review checklist identify program risks and require program managers to perform additional oversight and analysis of at-risk recipients. Additionally, annual site visits and external financial examinations are conducted for a subset of grant recipients.

Notwithstanding, this recommendation is being reopened because the checklists we reviewed did not include the required risk-based factors or contain evidence program managers considered them during their quarterly oversight and monitoring reviews. As with recommendation 5, management stated they will implement internal spot checks of quarterly reviews to ensure program managers properly monitor recipients that are not meeting their quarterly milestone goals. SBA provided a target completion date of June 30, 2024. The recommendation can be closed when management provides evidence that it implemented a risk-based approach to monitoring grant recipients and the process allows for early identification of at-risk recipients.

## Scope and Methodology

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The scope of this verification inspection included all six recommendations made in SBA OIG Report 18-11, *Audit of SBA's State Trade Expansion Program*. These recommendations were previously closed based on evidence SBA provided to OIG implementing corrective actions which addressed the issues identified in the audit. For this verification inspection, we reviewed SBA management's documentation and justification of the corrective actions taken to close the six recommendations.

Our objective was to determine whether SBA's corrective actions on these six recommendations are still in place. To answer our objectives, we reviewed relevant legislation, the *STEP Annual Report to Congress 2021*, program announcements, site visit policies, performance measurements, and reimbursement and activity thresholds. We conducted interviews with program officials to understand the process for reconciling small businesses, answering checklist questions, and other corrective actions taken to address the six recommendations. We also examined grant recipient site visit documentation, performance reports, client reports, and checklists. Finally, we performed testing and reconciliations to determine whether SBA's processes for addressing the recommendations were effective and operating as intended.

We performed this review in accordance with the Council on Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards require we plan and perform a review to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our objectives.



## Agency Response

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SBA RESPONSE TO THE VERIFICATION INSPECTION



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

**To:** Hannibal “Mike” Ware  
Inspector General  
U.S. Small Business Administration

**From:** Claire Ehmann  
Deputy Associate Administrator, Office of International Trade

**Date:** May 24, 2024

**Subject:** SBA’s Response to Verification Inspection of SBA’s State Trade Expansion Program,  
Audit 24003

**CLAIRE  
EHMANN** Digitally signed by  
CLAIRE EHMANN  
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The SBA appreciates the opportunity to review and respond to the draft Verification Inspection report for the State Trade Expansion Program (STEP).

The SBA’s Office of International Trade is committed to ensuring appropriate oversight of the State Trade Expansion Program and improving its effectiveness.

The SBA partially agrees with the recommendations made and is providing the following responses.

**Recommendation 4** – Require State Trade Expansion Program applicants to include reimbursement and activity thresholds for participating eligible small business concerns in their proposals and review for reasonableness to ensure the program meets the objective of the Trade Facilitation and Trade Enforcement Act of 2015.

**SBA Response:** The SBA agrees with this recommendation. The STEP Notice of Funding Opportunity requires applicants to include reimbursement and activity thresholds in their proposals. The proposals are reviewed during Tier 1 of application review process. To remediate, during the STEP12 proposal review, SBA will modify its grant review instructions and will clearly instruct the Technical Evaluation Panels to review both the reimbursement and the activity thresholds for reasonableness which is rated under the Financial Assistance Plan (Criteria 4). This will be implemented by June 14, 2024 for the FY24 grant cycle.

**Recommendation 5:** Enhance the quarterly review process to include strategic planning to emphasize recipients meeting performance goals.

**SBA Response:** SBA agrees with this recommendation and will ensure that current procedures are properly followed. The Quarterly In Depth Review (QIDR) checklist includes two questions (Question 9) and (Question 10) that emphasize meeting performance goals.

Question 9 asks if the awardee's reported expenditures are in agreement with the approved SF 424A Section D and E (Forecasted Cash Needs) by quarter. A "No" answer requires the grantee to provide a written explanation why and how the grantee will reconcile their planned vs. actual performance. Question 10 asks if the grantee is on track with expending its STEP funds and/or accomplishing their approved activities. The QIDR has instructions that a "No" answer indicates that the Program Manager will increase monitoring of the award to ensure that recipients meet performance goals and will schedule a conference call, site visit, program review or financial examination to assess how the grantee will be able to expend its STEP funds at its approved rate and accomplish its planned milestone goals. STEP Program Managers have been trained and can no longer use an "N/A" response to Questions 9 and 10 of the QIDR. The SBA/STEP Director will implement spot reviews of QIDRs to ensure that Program Managers are complying with these procedures by June 30, 2024 and will provide additional training to the Program Managers if necessary.

**Recommendation 6:** Increase oversight of cooperative agreement recipients and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.

**SBA Response:** SBA partially agrees with this recommendation. The SBA does implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals. Questions 9 and 10 of the QIDR identify program risks and requires program managers to perform additional oversight and analysis of at-risk recipients, including scheduling follow-up calls to discuss how to mitigate risk, and requires grantees to explain why they did not meet their forecasted cash need or missed program milestones. Since 2022, the SBA has implemented an electronic system, A-STEP, to enable grantees to upload their reporting documents including progress toward quarterly milestone goals. Per Recommendation 5, SBA will implement internal spot reviews of QIDRs to ensure Questions 9 and 10 are properly monitoring recipients that are not meeting their quarterly milestone goals by June 30, 2024. The SBA implements a risk-based approach to monitor STEP recipients and to address any risks, which includes annual site visits and external financial examinations for a subset of grant recipients. On an annual basis, in order to determine which grantees to include in a site visit or a financial exam, the SBA reviews the following at-risk items:

- Is the grantee adhering to the terms and conditions of the grant and submitting quarterly reporting on time?
- Does the state have a history of 100% utilization? Has the state returned unspent funds?
- Did the grantee meet its performance measures in its milestone goals and activities in the previous year?

- How long has the STEP director been running the STEP program? Does support staff have experience working with small businesses on international trade?

Annual site visits and external financial examinations provide information to help the SBA work together with grantees to address program risks in a timely manner; for example, sharing best practices such as outreach strategies to ESBCs from high-performing states. Site visit findings are documented and include steps to address any program risks that are found.